

PART IVCIGAR DEALERS

GENERAL      The manufacturer may cover all the methods of making the consumer buy his brand of cigars, but the dealers in cigars are in business and must receive his consideration for their cooperative efforts. Obtaining the goodwill of a dealer may be the technique of a salesman, but company policy usually is reflected in the attitude of the dealers toward the brand. Therefore, it seems a more scientific management to attempt to understand the dealers' point of view instead of using the dealers as a tool of the company.

Cigar dealers may be of all sizes. They range from the wholesaler who sells to a large area, to the tiny cigar stand occupying only a few feet. Some buy from the manufacturer; others will buy from a cash and carry dealer, but unanimously they all are interested in the one objective of business, profit from cigars. Their attitude must be interpreted as one by which they expect to get the best payment for their services in cigar marketing which their places in the distribution system merit.

There are many brands of cigars being marketed in the same manner with the same profit; and when the product is such that sales are automatic as far as most

dealers are concerned, there results a calm indifference to selling cigars. It takes only a short time for manufacturers to realize that this carefree attitude toward cigars is bound to injure their brand prestige and more direct contact with the consumer is easily recognized as the solution. A cigar dealer usually has so many other things to sell that he neglects cigars for novelties and commodities where salesmanship can be rewarded with a handsome profit.

Those dealers who deal directly with consumers have showed their incapacity to satisfy consumers and yet sell them cigars which are undoubtedly more profitable than cigarettes. The dealer is accredited with being able to push the profitable items but those methods were more applicable when the consumer had ample time to spend in the store and was not rushing about. Just as the power of advertising of cigars increases, the power of salesmanship decreases and makes order takers.

It must be remembered that most dealers do not realize the sales pressure and suction which is being created at their station. They are not keen on the peculiar marketing problems which the manufacturer must determine for them and they often welcome assistance. Fear of treating the dealer harshly may be unwise business policy and may be unappreciated by the dealer himself. The middle men in cigar distribution seem to be used to

receiving many directions from others or else being driven in a preplanned track to the advantage of a brand name.

Cigar dealers never know when they are getting the correct volume. When cigars are weak there is the alternative of stressing something else rather than improving cigar volume. Since there is not enough profit to merit emphasis on cigars, the counters for cigar display are being crowded into small corners and are shrinking in size. The saving feature is that in most retail outlets, receipt of money is most easily taken care of over a cigar counter.

CHAIN CIGAR DEALERS There are two types of chain cigar dealers, those which deal only in tobaccos and those which carry tobaccos along with other lines of goods. The first group consists of the United Cigar Stores Company and D. A. Schulte, Inc., which monopolize the field. The latter group are chain restaurants, chain drug stores, etc.

Chain cigar stores have undergone a severest test in all parts of the country. The two large interests in the field have attempted to corner the tobacco business and, besides dealing directly with the manufacturers, organize the sale of tobaccos as they see fit. The high rents in strategic locations (\$86,000 per year rent in one New York store) which are necessary for carrying on a business of this kind become the basis of a large



overhead which volume and volume only can reduce in unit cost per sale.

Chain stores have been secretive about their volume. They rely on minimum selling prices and low purchase prices due to quantity to draw the trade away from the other outlets. The independent retailers and the other large cigar retailers will almost meet any low price which the chain store will give and in a period of depression the high overhead forces the chains to be conservative in their methods. The manufacturer wishes all cigars to be distributed through the chains, for in making trade for themselves they cannot help but improve the volume of the manufacturer and reduce his selling, collection and advertising costs.

People seem to buy at a chain store on account of the saving they make and are not at all repeat customers unless they are getting the savings which they expect. It is for that reason that the cigar chain stores have never been able to obtain more than about 8% of the country's cigar business. The impersonality of the cigar store has not the personal appeal which an independent store might have, but as long as price remains the drawing point, efficiency in management ought to be improved continually, a thing which can hardly be said is true.

An example of the characteristics of the trade at a chain store is indicated by the reaction to

coupons which are given out. Profit sharing certificates in chain cigar stores amount to  $1\frac{1}{4}\%$  to  $1\frac{3}{4}\%$  of the sale price. At one of the Schulte stores in Boston in April 1932, the customers were watched for an hour at the cigar counter and every coupon was kept by the purchasers. When in October 1929 the Schulte chain discontinued the use of coupons there was a loss of 28% of their business and in January 1931 when announcement was made of the return to the coupon system there was a distinct rise in sales. Although the 28% shrinkage was chiefly due to the business conditions, the loss was greater than that of the United Cigar Stores Company

Goods in a chain cigar store remain at fixed prices until sold. The customer coming into the store determines the type of cigars which are sold and any request for a brand which is not carried in stock is sent to the New York office for consideration. Therefore, the inventory includes practically all brands of cigars, and there is no discrimination against any of them, even though a brand of their own is marketed.

Each store is charged for goods that it receives. Monthly the following inventory proceedings are followed:

	Total sales in dollars
Plus:	<u>Present inventory at standard selling prices</u>
	Value of goods sold during month.
	Goods delivered to store at standard selling prices
Plus:	<u>Former inventory at standard selling prices</u>
	Value of goods received during month.



These two totals must check rather accurately and the inventories are taken by experts who travel about between the stores and never take the same inventory twice in succession. The individual store is completely isolated from the operation of the business. The New York office maintains a staff which rules the complete chain of stores and performs the following functions:

- |                              |                     |
|------------------------------|---------------------|
| 1. Purchasing                | 5. Inventory taking |
| 2. Price Fixing              | 6. Inspection       |
| 3. Statistics                | 7. Real Estate      |
| 4. Displays and Arrangements | 8. Company policy   |

Store clerks and district managers take care of all the local problems.

The United Cigars Stores Company realized immediately that tobacco products alone could not support the system which they planned. Diversification was necessary for success and the continuation of this policy has led to sales of many items. The concentration on sales of expensive articles is just taking place in coordination with mechanical vending machines to sell the cigarettes and eliminate the routine work of the 5000 salesmen.

The wholesale cigar prices are supposed to be fixed when buying from a manufacturer, the chains find most ingenious methods of obtaining goods cheaply. Their volume is so large that they can bargain with the manufacturer and not only obtain volume premiums but actually charge for window displays and placement of cigar boxes

in the counter and on the top. From these complicated details in purchasing, the individual store layouts must be determined at the office and profitable items must be placed in a fitting place. Each unit receives a plan of how the store is to be arranged and the main office studies these layouts without attempting to control the direction of their sales.

In metropolitan Boston there are 22 United Cigar Stores and 18 Schulte stores. Their locations are determined by the number of persons who pass and, like many chain stores, rival one another for trade in some districts so as to make it unprofitable for both. The cigar counters are on the right as one enters, showing that cigar sales are emphasized, the tendency of customers being to turn to the right first. The chain store cigar business is encouraged by large displays and offers which are changed often, making the stores up-to-date and worth the while of a passerby to look in the window. The percent of total income which cigars furnished is falling as increased sales at soda fountains, candy and sundries are made.

A typical example of chain store inefficiency is indicated by the way local cigars are dealt with by local United Cigar stores. The closest of the three distribution points which are maintained by the company is New York. As a result local manufacturers ship cigars

to the New York warehouse and then they are reshipped back to Boston at a later date. While other chains use the emergency order system to buy local products, the United States CigarStores Company maintains disciplinary system and rigid control regardless of cost.

The heaviest competition which the chain cigar store receives is from the other chain distributors of cigars. Liggett's Drug Stores with 15 units in metropolitan Boston; Walten Lunch Company with 17; and Waldorf Lunch Company with 20, fail to allow the chain stores to cut important prices lower than they can. The chain drug stores find their cigar trade very steady and often wish to get individuals into the stores through this medium. Although recent tests have shown that a consumer comes to buy one product and walks out without being affected by the surrounding articles, in cigar marketing it is the repeat business which yields returns and the habit of coming into a given store often finally results in sales of other articles. The drug store, therefore, has a distinct advantage in dealing with the everyday needs of a smoker and the Liggett store at South Station in Boston does a larger volume of cigar business than any other retail outlet in the city.

The restaurant chains find cigarettes the least profitable and candy yielding the most profit. Cigars sometimes get placed on the top of the counter and are in no way neglected. The income from the sales at the



cashier's counter in the average chain lunch is 10% of the food sales. Often smokers will step in a store of this kind for tobacco only, especially since they know prices are the same.

Chain stores of all kinds are merely a means of distributing cigars. The manufacturer of a brand is not interested in the methods which are used to sell cigars, just so long as the sales are not injurious to the brand. If the retailer has any unauthoritative control over the manufacturer's brand or uses improper business methods, it becomes time for action, but the chain cigar distribution is nothing more than merchandising advertised brands and supplying service. Where responsibility for the product rests in others, the problem is one of the simplest for the chain store and little complication results.

WHOLESALE CIGAR DEALERS The wholesale function in the cigar industry is tending toward distribution to the outlets which are too small to buy directly from the manufacturer. Where exclusive brand districts are set up, where a manufacturer has no salesmen, or where emergency orders from large buyers exist, there is a need for a wholesaler to handle accounts of all sizes.

The wholesaler of cigars, like the chain store, is required to carry additional lines to make the business pay. Candies and other tobacco forms are now accompanying cigars as ordinary procedure, though formerly wholesale grocery companies were the agents for cigar distribution.

The reason the wholesale grocery dealer dropped the line of cigars is because profits were fixed and prices pegged. The expansion into lines related to cigars involved catering to a trade which was out of the grocery field completely and a resultant loss. The wholesalers in the grocery field (S. S. Pierce, for example) who market their own brand are no different from a manufacturer. The wholesale cigar business has, therefore, grown up under new companies in recent years, as the nationalization of manufacturers took away the initiative to make large profit and supplanted volume as a cure for financial satisfaction.

The wholesaler in periods of depression finds his business improving in cigars because the credit of the small retailer is poor with a resultant risk in direct selling by the manufacturer. Collections put a local wholesaler in a position of knowing where to allow credit and, since his calls will be more frequent than the manufacturer's salesmen, the losses from uncollectable accounts will be small.

When the wholesaler finds that credit is too poor to risk a small order placement, the tendency is for the retailer to go to the cash and carry wholesaler and save the cost of the service which is rendered, about 2%. The successful tobacco wholesaler finds it necessary to have cash and carry stores scattered throughout an urban center to retain the volume of business he enjoys, as the business cycle goes through its unpredictable levels.



The wholesaler buys from the manufacturer with a  $12\frac{1}{2}\%$  margin as an average for turnover of the stock. The ability of the wholesaler to alter the manufacturer's price is very small, except for a usual 2% discount for carload lots, in that he finds it impossible to retain exclusive contracts and yet offer specials and features of other brands. The competition from other wholesalers who are selling a non-exclusive brand may force the donation of a large part of this maximum discount of  $14\frac{1}{2}\%$  to the retailer, but where one wholesaler handles a brand exclusively the other wholesaler must buy it from him and can never manipulate prices without being cut from his supply. Although one wholesaler with an exclusive brand has a power over the others, there is rarely a refusal to sell one another because there are always methods of obtaining the cigars through "bootlegging" tactics, or else the sales of the exclusive brand will diminish through lack of distribution.

The wholesaler receives cigars prepaid in shipment and is billed from the time the cigars leave the factory. The ten-day allowance for payment is partially used up by the time the goods are received and as a result a wholesaler needs as large a capital as the manufacturer who sells directly. When the retailer pays the wholesaler 30 days after receipt of goods and the wholesaler pays the manufacturer 10 days after shipment it appears that all the parties must have a great quantity of



moving capital. Long credit standing would improve the situation and put many "hand to mouth" buyers into the large order classification. The cost of distribution is so high that it often appears a better policy to suffer larger quantities of bad debt losses, but cut down the effort spent on small customers by inducing them to make larger purchases on credit.

The total expense in selling to retailers amounts to 5% of the selling price of the cigars. Of this amount the actual sales force in salary and expenses consumes 1½%, leaving 3½% for delivery, administration, collection, storage, etc. On non-exclusive brands a wholesaler often gives 3% discount for larger quantities with the usual 2% for cash (10 days or until the next call). Where an exclusive agency exists for a specific district there is approximately 5 or 6% more than could be obtained without the special arrangement, but part of this income goes to advertising, free goods, and other manufacturer's functions. In order to hold the volume, the salesmen of the wholesaler often have a special each week which they offer to the retailers who have bought in good quantity. Since a great many orders for cigars come in by phone or by mail when the retailer runs out, the wholesaler must retain their good will by assuring them a little additional benefit for their faithfulness.

The salesmen of the wholesaler call on the retailers as often as once a week and take the order for

their needs. In dealing with hot dog stands where few cigars are sold, calls are about 5 weeks apart. Thus a salesman who is assigned a district has to cover it in such a way as to concentrate on those outlets which bring in the most business. There is no unprofitable account, for if cigars can be sold they are valuable enough to be serviced for the retailer.

Metropolitan Boston has one large tobacco wholesaler, Joseph P. Marming Company, which spreads its \$14,000,000 business throughout New England. Cigar sales will approximate 20% of the total sales and the majority of their business will be in the local area. It appears, therefore, that \$2,500,000 or one-third of the expenditure for cigars in metropolitan Boston is handled through their company. Of the 44 in their sales force, 14 cover the city of Boston and 15 trucks make all the deliveries within 40 miles. They operate nine "cash and carry" wholesale stores scattered throughout the city, which compete with the large number of small wholesalers who do business on credit or cash in any way they can. The "cash and carry" store hurts the service function which they can supply, but the independent jobbers with negligible overhead will reduce their volume if they do not meet the competition on common ground.

INDEPENDENT RETAIL CIGAR DEALERS The great majority of cigar outlets are independently owned. The corner drug store and the community tobacco store are still powerful



in their hold on the various districts throughout a city. They have a time and place utility which the chain stores cannot furnish and adjust their actions in opposition to massed capital tactics.

The retail cigar dealer thinks he is a real salesman. He knows that his trade depends on the confidence and satisfaction of his patronage over whom he exercises some control. Since the manufacturer has neglected the power of salesmanship of the independent retailers in setting advertising budgets, he is considered to have made extra expenditures with no avail. Those retailers who deal only in tobacco products respect their own opinions so highly that they handle the manufacturers' salesman as a menace to be endured. The drug store and restaurant independents are not quite so authoritative on tobaccos and do not rely on tobacco as an important source of income. Each independent outlet presents a problem for a salesman and since it is these retail outlets which make the final sale of the cigar, care must be taken not to encourage their hatred.

Independent tobaccoists are interested in continual prosperity and do not wish to suffer the rises and falls of the chain units. Nevertheless, they follow closely the methods which are used by the rival selling giant, the chain store. Their prices are almost the same and they feature the same type of articles; they adopt all the modern equipment of the chain store but retain the one feature which up-



holds them - seeking profit instead of volume. (If a cigar is selling for 10¢, 3 for 25¢, and a man asks for two that brand, the chain store salesman suggests that the 3 for 25¢ price be taken advantage of, while the independent makes the 20¢ sale. The chain has obtained the volume, the independent has risked the goodwill of his store, but made a distinct profit. The same situation exists when the chain store gives matches with each purchase while the independent tobacconist is glad to give them if they are sought.

The total business of a prosperous independent retail tobacconist is about \$25,000 per year, of which \$5,000 has been in cigar sales. The overhead is small and the owner is the salesman, ready to take advantage of any profitable business that he can obtain. Where neighborhoods are active at night the store will be open and, since tobacco products sell themselves, the independent tobacconist can handle the sales without any promotion, stimulation, or actual effort.

The situation is quite different with the active independent drug store. Druggists consider it easy to build cigar volume but discourage it. Cigar counters are being crowded into hidden corners as the people know that cigars can be obtained at a drug store at a low price and seek them. The druggist has so many other more profitable things to sell that he pays little attention to cigars because he is not paid for cigar selling effort. Cigars merely bring people into a drug store and may

develop habitual attendance, but to emphasize trade of this kind is to crush the opportunity of other sales and cause diminishing returns on the additional help which is needed.

Independents have sought strength in unity. They have combined into organized buying groups and market their own brands. Cigars are bought directly from the manufacturer in many cases and savings in large quantities are made.

The Greater Boston Tobacco Retailers Association, Inc., was formed in the Boston district to concentrate their efforts in bucking the chain stores and retaining their percentages of tobacco sales. They have sponsored political agitation for a tobacco outlet tax and have dealt as a unit with certain manufacturers and wholesalers. They exchange their sales schemes and discuss problems which are of benefit to all. There are about 60 active members and about 40 "camp followers" who compose the group.

The methods employed by these independents may hurt a brand considerably. All will hide a given brand or talk against it if they have been treated unfairly, but the manufacturer still holds the power over these men by being able to drop the price and reduce their profit on some popular brand. For those local manufacturers who are apparently going to attempt to sell more through the chains by a reduction in price, the association will feature their cigars in an effort to restore volume. A group of this kind has more power than apparently is credited to it, but, as cigarettes have crushed their business with the 2 for 25¢

price, cigars may do the same when national brands force distribution through customer suction rather than through pressure on outlets.